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TO USDEL MTN GENEVA PRIORITY

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PASS CODEL

E.O. 11652: N/A

TAGS: ETRD, MTN

SUBJECT: U.S.-EC CUSTOMS CONSULTATIONS

1. SUMMARY: IN U.S.-EC CUSTOMS BILATERAL CONSULTATIONS, EC OUTLINED THEIR OBJECTIVES IN MTN ON VALUATION. EC STATED THEY ARE NOT REPEAT NOT ASKING U.S. TO ADOPT BRUSSELS DEFINITION OF VALUE (BDV). THEY RAISED COMPENSATION ISSUE AND ARGUED THAT COMPENSATION COULD NOT BE DETERMINED UNTIL NEW SET OF VALUATION RULES AND PRINCIPLES ARE DEVELOPED AND POTENTIAL TRADE IMPACT ON SUBSCRIBING COUNTRIES ASSESSED. U.S. RESPONDED BY OUTLINING NEED FOR ASSURANCE OF COMPENSATION FOR CHANGES TO U.S. VALUATION SYSTEM. EC STATED THEY CAN NOT REPEAT NOT INDICATE AT LIMITED OFFICIAL USE

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THIS TIME THAT U.S. ENTITLED TO COMPENSATION. END SUMMARY.

2. EC (GALLAGHER) STATED THAT EC NOT ASKING U.S. TO MOVE TO BDV. EC HAS THREE IDEAS IN MIND ON VALUATION IN MTN: (A) TO CHANGE EC SYSTEM; (B) TO CHANGE U.S. SYSTEM; AND, (C) TO IMPROVE THIRD-COUNTRY RULES ON VALUATION. EC EXPRESSED DESIRE FOR U.S. TO TAKE MORE ACTIVE AND POSITIVE ROLE ON VALUATION SINCE U.S. AND EC HAVE A MUTUAL INTEREST IN IMPROVING VALUATION SYSTEMS OF THIRD COUNTRIES, ESPECIALLY LDCS.

3. GALLAGHER CONTINUED BY STATING EC LOOKING FOR MUTUAL AND DEEP DISCUSSION ON VALUATION AND EC INTERESTED IN NEW CODE OR NEW RULES ON VALUATION. HE THEN RAISED COMPENSATION ISSUE, QUESTIONING U.S. POSTURE ON ASSURANCE OF COMPENSATION. GALLAGHER STATED DETAILS ON NEW CODE OR SYSTEM DETERMINE AMOUNT AND WHO GETS COMPENSATION. ALSO, EC FEELS COMPENSATION IS MULTILATERAL, NOT BILATERAL, ISSUE. EC INDICATED THAT AT SOME STAGE OF NEGOTIATIONS, PREFERABLY AT CONCLUSION, EC MUST LOOK AT OVERALL RESULTS IN ALL AREAS OF MTN AND DETERMINE COMPENSATION DUE. GALLAGHER WENT ON TO STATE THAT IN AREA OF TECHNICAL BARRIERS TO TRADE, QUESTION OF COMPENSATION DOES NOT ALWAYS ARISE IN REMOVAL OF BARRIERS. BENEFITS GAINED BY ELIMINATION OF BARRIERS MAY BE COMPENSATION.

4. AMBASSADOR YEUTTER AGREED U.S. HAS NOT TAKEN ACTIVE ROLE IN VALUATION, AND RECOGNIZED MUTUAL BENEFITS OF IMPROVED VALUATION SYSTEM. HE RECOGNIZED THAT EC NOT ASKING U.S. TO ADOPT BDV SYSTEM, BUT POINTED OUT THAT WHAT WILL LIKELY EMERGE FROM CODE EXERCISE IN MTN IS MODIFIED BDV SINCE NOT ENOUGH TIME BETWEEN NOW AND 1977 TO FORMULATE NEW SYSTEM OR COMPLETELY OVERHAUL BDV. THUS, A HYBRID BDV, NOT A HYBRID U.S. VALUATION SYSTEM, WILL LIKELY OCCUR. YEUTTER STATED WE THUS HAVE A RECIPROCITY ISSUE.

5. IN REPLY TO EC ARGUMENTS ON COMPENSATION, YEUTTER AGREED THAT MOST MTN AREAS WILL NOT SELF BALANCE, AND THERE WILL BE TRADE-OFFS FROM ONE AREA TO ANOTHER. CUSTOMS VALUATION, HOWEVER, DIFFERENT FROM OTHER NTM AREAS SINCE UNDER EC PROPOSAL U.S. WOULD ESSENTIALLY BE GIVING UP ITS LIMITED OFFICIAL USE

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SYSTEM AND ADOPTING "NEW" SYSTEM, WHEREAS IN OTHER NTM AREAS (E.G., STANDARDS, SUBSIDIES, GOVERNMENT PROCUREMENT) NEW CODES ARE BEING DEVELOPED AB INITIO. YEUTTER EXPRESSED OPINION U.S. NEEDS TWO FACTORS FOR MOVEMENT ON VALUE: (A) SOME ASSURANCE FROM MAJOR TRADING PARTNERS THAT COMPENSATION WILL BE RECEIVED; AND (B) SOME RECIPROCITY IN CUSTOMS AREA ITSELF.

6. EC RESPONDED THAT NEGOTIATIONS IN VALUATION AREA CANNOT START FROM POINT OF COMPENSATION, BUT RATHER MUST BEGIN WITH EXAMINATION OF CONCEPTS AND PRINCIPLES. GALLAGHER STATED EC CANNOT MAKE A COMMITMENT AT THIS TIME ON RECIPROCITY.

7. U.S. RESPONDED THAT MOVEMENT ON OUR PART TO "ACTIVE" STANCE WOULD BE MAJOR UNDERTAKING, INVOLVING TIME, MONEY, ADVISORY SECTOR INPUT, AND ANALYTICAL STUDIES. THIS NOT NOW A HIGH PRIORITY AREA FOR U.S. IN MTN. U.S. CAN NOT REPEAT NOT AFFORD TO BECOME ACTIVELY INVOLVED ON VALUATION UNLESS SOME FIRM INDICATION GIVEN ON COMPENSATION QUESTION. U.S. CANNOT CONCEIVE OF CHANGES IN VALUATION LAW BASED UPON NEBULOUS POSSIBILITIES OF FUTURE RECIPROCITY.

8. AMBASSADOR YEUTTER STATED THAT U.S. HAS TWO BASIC POLICY OPTIONS CONCERNING VALUATION: (A) CONTINUED PASSIVE ATTITUDE, WHICH WOULD NOT BE DISTURBING DOMESTICALLY; OR (B) AN ACTIVE STANCE, AS SUGGESTED BY THE EC, WHICH WOULD NOT BE WARMLY GREETED BY U.S. INDUSTRY. THE FIRST QUESTION POSED DOMESTICALLY UNDER OPTION B WOULD BE, "WHY ARE WE DOING THIS AND WHAT ARE WE GETTING OUT OF IT." YEUTTER THOUGHT OPTION B VIABLE ONLY IF USG HAS GOOD ANSWER TO THIS QUESTION.

9. GALLAGHER SAID EC HAS NOT RULED OUT COMPENSATION TO U.S., BUT U.S. WILL HAVE TO DEMONSTRATE THAT CLEAR BALANCE IS IN ITS FAVOR PRIOR TO COMMITMENT ON COMPENSATION.

10. YEUTTER ADDED THAT WHAT EMERGES FROM VALUATION EXERCISE MUST BE VIABLE AND ACCEPTABLE TO CONGRESS. U.S. DOES NOT WANT TO HAVE ANOTHER KENNEDY ROUND ASP SITUATION.

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11. GALLAGHER ASKED THAT TECHNICAL CONSULTATIONS CONTINUE WITH AFTERNOON SESSION AT KELLY (U.S.) AND CHUMAS (EC) LEVEL TO OBTAIN CLARIFICATION ON ISSUES.

12. AT AFTERNOON SESSION, U.S. (KELLY) REITERATED PRACTICAL AND POLITICAL PROBLEMS IN VALUATION AREA. EC (CHUMAS) ASKED FOR U.S. OPINION OF TYPE AND EXTENT OF EC COMMITMENT NECESSARY FOR U.S. MOVEMENT. KELLY DISCUSSED VIEWS ON POSSIBLE U.S. ADOPTION OF MODIFIED BDV ON CIF BASIS WITH OTHER COUNTRIES AGREEING TO U.S. DUTY INCREASES BY WAIVING GATT RIGHT TO ARTICLE XXVIII NEGOTIATIONS. EC NOTED THIS APPROACH AND RAISED POSSIBILITY OF EC ADOPTION OF FOB SYSTEM. U.S. EXPRESSED OPINION THAT HARMONIZATION OF VALUATION SYSTEMS ON EITHER CIF OR FOB BASIS COULD BE POSSIBLE U.S. COMPENSATION, PROVIDED THERE BE NO ADJUSTMENT

OF RATES.

13. EC INDICATED CONSULTATIONS RESULTED IN USEFUL CLARIFICATION OF U.S. POSITION AND PROBLEMS IN VALUATION AREA. EC WILL UNDERTAKE REEVALUATION OF ITS POSITION, TAKING INTO ACCOUNT U.S. POINTS RAISED DURING CONSULTATIONS. KISSINGER

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